



# **STATE DEVELOPMENT, INFRASTRUCTURE AND INDUSTRY SUBCOMMITTEE**

## **Members present:**

Mr DF Gibson MP (Chair)  
Mr MJ Hart MP  
Ms KN Millard MP (Deputy Chair)

## **Staff present:**

Ms E Pasley (Research Director)  
Ms M Telford (Principal Research Officer)  
Ms M Westcott (Principal Research Officer)

## **PUBLIC HEARING—INQUIRY INTO THE ELECTRICITY AND OTHER LEGISLATION AMENDMENT BILL 2014**

### **TRANSCRIPT OF PROCEEDINGS**

**THURSDAY, 10 APRIL 2014**

**Brisbane**

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### Subcommittee met at 2.03 pm

**CHAIR:** Good afternoon. I declare open the public hearing for the committee's inquiry into the Electricity and Other Legislation Amendment Bill 2014 and I thank everyone for their attendance today. This hearing is being conducted by an authorised subcommittee of the State Development, Infrastructure and Industry Committee. I am David Gibson, the member for Gympie and chair of the committee. The other subcommittee members with me today are Ms Kerry Millard, member for Sandgate and deputy chair, and Mr Michael Hart, member for Burleigh.

The hearing today forms part of the committee's examination of the Electricity and Other Legislation Amendment Bill 2014. The Parliament of Queensland Act 2001 requires the committee to examine the bill to consider the policy effect to be given by the bill and the application of fundamental legislative principles. Today's public hearing will form part of the committee's examination of the bill. The hearing is being broadcast live by the Parliamentary Service's website and transcribed by Hansard. The hearing will conclude at 3.30 pm.

Before we commence, I ask that mobile devices be switched off or placed on silent mode. For the benefit of Hansard, I ask that all witnesses state their name and the position by which they are appearing before the committee when they first speak. This hearing is a formal committee proceeding. The guide for appearing as a witness before a committee has been provided to those appearing today. The committee will also observe schedule 3 of the standing orders. I now welcome the representative from APA.

### **JOHANNESSEN, Mr Rod, General Manager, Strategy and Service Delivery, APA Group**

**CHAIR:** Would you care to make an opening statement?

**Mr Johannessen:** Mr Chairman and committee members, thank you for the opportunity to appear before the committee. Before reading a statement, I would like to correct some errors of fact in the written submission that APA made to the committee. In our submission we stated that there are 10,500 kilometres of licensed gas pipelines in Queensland. There are in fact only 9,623 kilometres of licensed gas pipelines. Therefore, the percentage of pipelines by length that APA owns in Queensland is 18 per cent, not 12 per cent. We have stated that there are two covered pipelines, whereas there is a small pipeline in Queensland owned by a gas producer that is a covered pipeline. This does not materially change the basis of our submission. If enacted, the legislation would see APA, which owns only 18 per cent of pipelines in Queensland by distance, contributing to 96 per cent of the cost to be recovered from industry. That is in regard to the gas component of the recovery mechanism.

APA is a major ASX listed energy infrastructure business owning and/or operating over \$12 billion of assets including significant gas transmission and distribution assets. In Queensland APA owns and operates four gas transmission pipelines—the Roma to Brisbane pipeline, the south-west Queensland pipeline, the Carpentaria gas pipeline and the Berwyndale to Wallumbilla pipeline, which delivers gas to power stations, industrial users and residential customers.

As a result of its pipeline ownership interests, APA would be directly impacted by the enactment of the bill, specifically in respect of part 3, amendment of Petroleum and Gas (Production and Safety) Act 2004. APA understands that the purpose of the bill is to recover from some industry participants the Queensland government's funding commitments to the Australian Energy Market Commission. In the case of the gas component of the state's funding commitment, of particular concern to APA is that the levy will only be applied to covered pipelines and therefore only three out of over 100 transmission pipelines in Queensland will be subject to the new levy.

As you may be aware, the Australian Energy Market Commission performs rule making and market development functions under the National Gas Law. Whilst this responsibility encompasses rule making for covered gas pipelines, it also includes rule making and market development responsibilities for an extensive range of other aspects of the gas market in Queensland including the operation of a short-term gas market, the Wallumbilla gas supply hub at Roma, the bulletin Brisbane

board and Gas Statement of Opportunities, which apply to all pipelines, both covered and uncovered pipelines. However, if enacted unamended, the levy will only be applied to operators of covered pipelines under the National Gas Law.

In a letter received by APA from the Department of Energy and Water Supply in respect of this matter, it states that the government's decision to levy transmission companies reflects its views that the AEMC has the function of making rules under the National Gas Law. The letter further states that operators of gas pipelines are subject to application of the National Gas Law and National Gas Rules if they operate a pipeline that is a covered pipeline.

The National Gas Law applies to all pipelines, covered and uncovered. In light of the broad application of the National Gas Law across the downstream gas sectors, all licensed pipelines—not just covered pipelines—in Queensland are subject to application of the NGL. We consider that any funding contribution sought from the market should come from all pipelines that are subject to the National Gas Law, not just those that are covered pipelines.

There is approximately 9,623 kilometres of transmission pipelines within Queensland, the vast majority of which are subject to coverage under the NGL and therefore potentially subject to access regulation and all of which are either currently or potentially subject to bulletin board provisions in terms of providing information to the market, the Gas Statement of Opportunities provisions or any future trading hub development such as the government recently undertook at the Wallumbilla gas supply hub, all of which are under the remit of the Australian Energy Market Commission.

Despite this 9,623 kilometres of pipeline, this government has determined that the cost should be borne by the owners of just three pipelines comprising less than 1,800 kilometres of pipelines. Specifically in relation to APA, 96 per cent of the cost of the levy is to be borne by one company owning just 18 per cent of the relevant pipelines. We find it difficult to understand how this is an equitable outcome and therefore how such a decision can be justified by the government.

We also note that the liquefied natural gas developments which will result in a tripling in demand for gas on the east coast of Australia are excluded from the requirement to pay the levy, despite those companies having availed themselves of opportunities available under the National Gas Law to gain what is known as a greenfield exemption from access regulation. A broader funding contribution from the industry would also reflect the fact that over the last 12 months and we anticipate over the next two years the AEMC's activities in the gas market area will be focusing primarily on non-access regulation matters such as the design of facilitated markets throughout Australia.

It is our understanding from discussions with the Department of Energy and Water Supply that it was the policy intent that ultimately the cost of the levy be passed through to end use customers; it was government's expectation that transmission pipelines would have change in law or new government impost type provisions which would enable the flow through of the cost to end users; and one consideration in deciding to place the levy on transmission pipelines was that because all gas that flows throughout Queensland must at some stage flow through a transmission pipeline it would therefore be possible to pass the cost on to all gas customers within Queensland.

I can advise in respect of the second point above regarding change in law provisions in our contracts that generally speaking we do have cost pass through provisions as contemplated, and these are contained in our gas transportation agreements and that APA would be able to recover most but not all of the cost of the levy. It is important to note, however, that these are contractual arrangements and they not only apply to covered pipelines but also to uncovered pipelines.

I can further advise that our previous experience in utilising these contractual clauses is very time consuming and is certainly not without acrimony between ourselves and our customers. The last time we had to pass through a levy on our Queensland pipelines there were six months of negotiations with some customers to finalise those arrangements. These clauses do not allow us to recover from our customers the cost of administering the levy or the cost of the negotiations with the customers.

In respect of the government's intent that by applying the levy to transmission pipelines all customers would contribute to the levy, this is only going to be satisfied to the extent that all transmission pipelines are subject to the levy, not just covered pipelines. Given the vast majority of transmission pipelines would not be subject to this levy, not all gas users would ultimately be contributing to the levy. For the reasons outlined above, we believe to the extent a levy is going to

be placed on pipeline operators it should be levied on all pipelines operating in Queensland, not just covered transmission pipelines. I am prepared to take questions from the committee. However, I was not the author of our submission. So if you have detailed questions I may have to take some on notice and provide a written response.

**CHAIR:** That is quite okay. I want to pick up on a couple of things that you mentioned. Again, if you do not have the numbers, if you are able to provide it for us on notice that would be great. You mentioned you do not believe you would be able to undertake full cost recovery. Do you have a percentage as to what that might be?

**Mr Johannessen:** It is actually quite high. On our Carpentaria gas pipeline we should be able to recover 100 per cent of the cost and we should get about 98 per cent of the cost on the Roma to Brisbane pipeline. What we will not be able to recover is the cost of administering those arrangements and the cost of spending up to six months negotiating those arrangements with some parties.

**CHAIR:** That was my next question. With regard to those costs—your administrative costs and negotiation costs—have you done some back-of-the-envelope calculations as to what they might be?

**Mr Johannessen:** No, we have not had to go through that process now for about four or five years. So we do not have any recent experience of it.

**CHAIR:** With regard to what plays out in other states, are uncovered pipelines subject to the levy in other states in Australia?

**Mr Johannessen:** We have done a little research on that topic. We understand that some other jurisdictions do recover the cost of the state's funding commitment to the AEMC. We are not familiar with those arrangements in full. We are not aware of any jurisdiction levying a fee directly on gas transmission pipelines. What we do know is that in New South Wales the state's contribution is recovered through the Climate Change Fund and under the Energy and Utilities Administration Act. The Climate Change Fund is, in turn, levied on all electricity distribution companies, not some, in the state and those costs are then, in turn, passed on to retailers and then ultimately to the end consumers.

**CHAIR:** With regard to gas in New South Wales?

**Mr Johannessen:** From what we understand it is more of a global charge, not necessarily just gas.

**CHAIR:** It is a charge that is applied to all electricity users and would it be accurate to say all gas users as well?

**Mr Johannessen:** No, not necessarily. Not all gas users are electricity users in New South Wales—anywhere for that matter.

**Ms MILLARD:** With regard to the outlay of costs for you if this goes ahead, you made comment that there are a couple of regions where you will be able to get back most of your outlay. But then, of course, there is the issue of the constant negotiation as well.

**Mr Johannessen:** Correct.

**Ms MILLARD:** Have you done a rough calculation as to how much you will be out of pocket as a business over say the first 12-month period?

**Mr Johannessen:** No, we have not been able to calculate. Unfortunately, because it is a negotiation between ourselves and our customers, some customers may negotiate more easily than others. Our experience has been that it can take up to six months for some of our customers to sort out those types of arrangements.

**Ms MILLARD:** One normally knows which ones they are.

**Mr Johannessen:** Not in an open hearing.

**Ms MILLARD:** Exactly! I am not saying me specifically.

**CHAIR:** I think you can have privilege if you want—no, do not go there.

**Ms MILLARD:** No, I am not asking that question. I would not do that to you.

**Mr Johannessen:** Ultimately, we do not know what it is going to cost. We will only know that once we have gone through a negotiation process. We will incur the time of my colleagues in the business who will actually have to go and meet with customers. We will incur potentially legal fees as well depending on how it goes.

**Mr HART:** Have you read the transcript of the briefing with the department that we held last week?

**Mr Johannessen:** No, I have not.

**Mr HART:** I specifically asked this question on your behalf and the response from the department, from memory, was that your pipelines are regulated and most of the other pipelines are not and, hence, recovery from the regulation is aimed at the pipelines that are regulated. Can you comment on that?

**Mr Johannessen:** I am happy to respond. Thank you for the question. The role of the AEMC is to make rules in respect of the National Gas Law and the role of the AEMC is also to undertake market development activity. It is not to operate the markets, but it is to undertake market development activity. We see that with the inquiries that they make et cetera. In terms of access regulation, we do not see a lot coming up from the AEMC in terms of access regulation, which is what would directly affect our two pipelines. Having said that, in my earlier presentation I noted that there is at least one pipeline that is being built to go to Gladstone where they have actually taken the benefit of an exemption. That exemption was available because that is allowed under the rules that the AEMC is responsible for developing and setting.

In terms of the market development activity, the AEMC undertakes market development activity and that market development activity is relevant to potentially all pipelines in Queensland. It is not just relevant to the two regulated pipelines that we own. The Wallumbilla gas supply hub is an activity that the AEMC has been involved in. That involves a number of pipelines one of which we own which is not regulated and another pipeline we do not own which is regulated. The Gas Statement of Opportunities is a report that is produced. That covers a whole range of activities. It is not produced by the AEMC; it is actually produced by the Australian Energy Market Operator. However, it is still the function of the AEMC to set rules in respect of the gas market development. Therefore, we see it is inequitable that, despite the fact that the activities of the AEMC extend to activities that impact on non-covered pipelines, only covered pipelines are being required to fund the levy.

**CHAIR:** Can I ask at this point—and I will ask it again of the department later on—who decides the difference between covered and uncovered? Who wakes up one morning and says, 'This pipeline is regulated and this one isn't'?

**Mr Johannessen:** There can be a process in relation to that. We have actually had a situation recently where we own a pipeline in South Australia where there was a coverage application made by a customer associated with that pipeline. So the coverage application can be made and then it goes through a process where the National Competition Council gets involved and makes a determination as to whether the pipeline should be covered.

**CHAIR:** Why do people make an application? Why would a customer want to have a coverage application made?

**Mr Johannessen:** Typically it is so that the pipeline is subject to access regulations, which then basically have the Australian Energy Regulator negotiate with the pipeline owner to set the standards for access to the pipeline. So the customer can potentially get the benefit of that. The Roma to Brisbane pipeline is a covered pipeline. Our customers can actually come to us and ask for what is called a reference service. The terms and conditions of that are published and it is generally understood. They are published following a negotiation between ourselves and the Australian Energy Regulator every five years. People can get the benefit of that. Other customers are more inclined to negotiate with us and they are prepared to negotiate specific services with us. That is where coverage comes in; it is in relation to the access regime that applies.

**CHAIR:** So is coverage dictated? In your experience does government wake up one morning and decide that all pipelines are now covered, or is it an activity that is initiated by a customer?

**Mr Johannessen:** In my experience it is an activity that is generally initiated by a customer. A new pipeline can actually elect to be covered. They can go down through that process. There is a cost associated with that. It is not something that we would be likely to do. However, customers can make an application for that purpose.

**CHAIR:** If this bill were to go through in its current format, is it likely that companies would elect to be covered? At the moment you are bearing 100 per cent of the cost for nine per cent of the pipeline. Would that be a factor do you think that would influence other operators in Queensland?

**Mr Johannessen:** I would not expect someone to go down a path which would see them have to pay an additional cost. Under the legislation as it is drafted we are going to be up for some 96 per cent of \$435,000 I was informed a little while ago. Somebody else who came along and applied for coverage of their pipeline that was of a similar length to our own pipeline would be up for sharing, say, 50 per cent of the cost.

**CHAIR:** But the cost would not increase if the amount of covered pipeline increases in Queensland on your understanding?

**Mr Johannessen:** I think it is a fixed—

**CHAIR:** I can ask the department later. That is fine.

**Mr HART:** I imagine there is some sort of mechanism for a payment as part of this regulation of your pipelines?

**Mr Johannessen:** We have what is called—there are various names for it. It could be an impost clause or a change of law clause. So where a government enacts a change of law, as this would be, we can then go back to our customers and say, 'There's been a change of law. We're incurring these additional costs.' As long as they are material—and for us \$400,000 per annum is material—

**Mr HART:** What do you pay the government presently for—

**Mr Johannessen:** In respect of this levy, nothing. We pay the government other charges but not—

**Mr HART:** You pay other charges?

**Mr Johannessen:** Yes.

**Mr HART:** Do other pipelines pay any charges at all that you are aware of?

**Mr Johannessen:** Yes, I think most pipelines would be subject to a safety levy. That is the charge that was implemented some years ago.

**Mr HART:** There is a mechanism in place for the government to collect money from the other pipelines that are not covered by this?

**Mr Johannessen:** Yes, there are licence fees. I am assuming that most pipeline companies that are licensed pay a licence fee.

**CHAIR:** I am just reviewing the transcript. I just want to clarify. You said just a moment ago that you believed you would be required to pay how much?

**Mr Johannessen:** Ninety-six per cent of \$430,000 per annum.

**CHAIR:** Who advised you of that figure?

**Mr Johannessen:** One of the departmental officers.

**CHAIR:** I did not get a chance to write the figure down.

**Mr Johannessen:** From memory it was \$436,000 and we would be paying 96 per cent of that because the third covered pipeline is a relatively small one at 50 kilometres long.

**CHAIR:** Are there any other questions? Is there anything else that you believe we should be aware of that we perhaps have not—

**Mr Johannessen:** No, I think I have fully covered the issues in terms of responses to questions in my opening statement.

**CHAIR:** We have certainly addressed all the matters that we need to. We appreciate your time before the committee.

**Mr Johannessen:** Thank you very much to the committee members for the opportunity to be present.

**CHAIR:** The committee will adjourn for five minutes.

**Proceedings suspended from 2.23 pm to 2.26 pm**

**CHAIR:** The committee will now recommence. I welcome the representative from Master Electricians Australia. For the record could I ask that you state your name and the position in which you are appearing before the committee?

**RICHARDS, Mr Malcolm, Chief Executive Office, Master Electricians Australia**

**Mr Richards:** Malcolm Richards, Chief Executive of Master Electricians Australia.

**CHAIR:** Would you like to make an opening statement?

**Mr Richards:** I have not prepared anything.

**CHAIR:** Off the cuff is even better.

**Mr Richards:** From our organisation's perspective we need a very balanced approach to alternative energies. We have not been supportive on numerous occasions of any particular energy being oversupported to the point where it distorts the market out of balance. It is our view that solar was for a long time oversupported and distorted the market. That is not necessarily beneficial for the businesses involved in the solar game because a business can grow unnaturally large and then die overnight. We like a very balanced approach to all alternative energies. We think there is a valuable place for them in the future. We like to see other new, innovative technologies included in any future consideration around this sort of tariff structure.

**CHAIR:** What are the association's views about the removal of the 8c feed-in tariff? How will that play out in South-East Queensland? Do you think that will drive prices in a particular direction or will we see no change from what there currently is?

**Mr Richards:** We do not believe there will be any substantial change from the removal of the 8c. We understand that most of the energy retailers will pick up the slack and incorporate that into a broader approach of providing their customers with a better outcome at the end of the day. We did not see this change in the legislation as anything negative but for shifting the goalposts a little bit, like I said earlier, to remove the need for government to oversupport any particular energy and put it back on the retailers who could make some benefit out of it themselves by offering alternatives to customers.

**CHAIR:** What is your view outside of South-East Queensland regarding the mandatory 8c feed-in tariff? How do you think the bill's provisions will impact?

**Mr Richards:** We certainly have a distorted market in regional Queensland where the cost to deliver power is much higher. To give regional Queenslanders a fair go, we need to help and support them obviously. It would be nice over time to think about improving that to a balanced market but only when the market could sustain a viable option for those customers in regional areas.

**CHAIR:** Do you think that is really achievable, or will it be just in select areas, perhaps in the large geographic population centres outside of South-East Queensland?

**Mr Richards:** Yes, Townsville, Cairns—large regional centres will be able to end up providing reasonable alternatives. Many small country towns, with the cost of delivering power to them and transporting power, will be very high for a long period. Having said that, if we invest in alternative energies long and broadly enough, we will end up at the stage where major transmission lines may be a thing of the past. If we can generate enough power in and around the home to supply their own home and other homes around them, suddenly we do not need major powerlines. That will have a dramatic positive effect on regional people's power bills when they can generate their electricity in their own area.

**CHAIR:** I know that when we had the departmental briefing the committee's deputy chair, the member for Mackay, brought up advances in technology and how that will play out. I think we heard some evidence with regard to areas where the take-up of solar was so high that there were actually problems with it feeding back into the grid. Would you care to make some comments for the benefit of the committee as to where you see the technology going?

**Mr Richards:** The simple solution to most of our problems of generating power at different times of the day is storage. If we draw a comparison to water, without a dam hypothetically we could only turn the tap on when it rained. Which is a ludicrous concept, but that is what we are doing with electricity. We are generating it at the exact same point in time when we are trying to use it, and solar is only good when the sun is shining. So it does unnaturally distort the network, because it provides power to consumers in the middle of the day when the network has plenty of ample power and no-one is using any power. So the voltage does get very high, which causes

network issues we are well aware of. If we could transfer that power from when it is at its peak of generation in the middle of the day to at its peak of usage at dinnertime at night, that simple transference of that power from one timescale to the other would have a dramatic, positive effect on the network, the grid and power bills at the end of the day.

The economics of batteries is the one thing holding us back on that front at the moment, but there seem to be a lot of positive developments in that area. Our organisation's concern is that we address the storage of electricity now through a tariff structure that will reward people for investing in storing that energy and putting it back into the grid at the right time. If you can store energy effectively and economically, then anything like wind, solar, geothermal, any power that you generate at any time suddenly becomes very valuable because you can store it and use it when you need it. The problem with all the alternative technologies today is all about the time frame in which it is generated.

**CHAIR:** I am just looking for the phrase that Mr Mulherin used. I thought he talked about a particular type of capacitor or something.

**Ms MILLARD:** Just with regards to the harvesting and storage of solar power, have you seen some good examples of that?

**Mr Richards:** We have some of our members installing storage systems at the moment. The problem with that storage today is that it is uneconomical in that the customer is taking a leap of faith in installing a battery bank out the back of the house because they are not getting a financial benefit from doing it. The way our tariff structure works today is it measures how much power you use and how much you feed back in, and it is a simple calculation where we know that the time value of power is very important. You can buy power for 2c a kilowatt hour during baseload times and you can pay \$1,000 a kilowatt hour during an extreme peak time, yet we are rewarding domestic homeowners on a fix framework of that tariff structure.

There are houses around this state that have enough batteries installed to virtually go off grid—although staying on grid has a benefit for everyone—but we do not have the financial incentive then through the tariff structure for them to be rewarded and for them to use the power at the right time. They can cap their peaks in their own installation and even feed power back into the grid when other neighbours around them need it. They can have a huge benefit on the grid and lower everybody's power bills.

**CHAIR:** I have just found the reference, my apologies there. The member for Mackay asked a question with regards to advances with regards to supercapacitors and storage using graphene. Perhaps for the benefit of the committee, if you could expand on anything in that area?

**Mr Richards:** It is just a new economical form of a battery. A capacitor is like a battery in that it can store and release energy very quickly. A lot of batteries are limited in how fast you can charge and release energy, so a capacitor is faster and probably, under this technology, a lot more economical. There are a lot of organisations trying very different ways of storing power to find that economical trigger to make it valuable.

I have communicated to governments all over Australia that one of the benefits we could see is not fall into the trap of capital investment in paying homeowners to put solar panels on roofs but, alternatively, provide a tariff that will reward them from balancing the grid in their area by storing and transferring the power that they generate or that is generated by other people and put back into the grid at the right time.

**CHAIR:** To build on that, there is a view of those who have solar panels on their roof that, 'I am doing the government and the community a favour. I have invested. I have spent my money to put those panels on the roof, and I am getting that electricity into the grid, so therefore I have saved them building another coal-fired power station.' Do you believe there is a need for an education campaign about what the limitations are with regards to solar? Because certainly people have this view that it does not matter if it is the middle of the night that I am pumping it in and no-one wants it; I am doing the right thing by providing it.

**Mr Richards:** I have not heard that particular view. The main view I hear from customers of our members is very clearly they made a financial commitment and they invested capital into a product, and they want a return on their investment. You will obviously hear the dramas if anything happens to the 44c feed-in tariff, because people have invested substantial volumes of money and buy-in capital under an agreement to get that return on investment. I think most people have made decisions based on that financial return rather than the full consideration of 'Am I generating power? What is the return on investment?', and those sorts of things. It is more a financial one, and that is because we over-supported it and made that financial equation too good at the time.



**Mr HART:** The benefit of solar power to the retailers is you generate the power, you sell it to them at 8c or 10c or whatever, and they on-sell it for 25c cents; correct?

**Mr Richards:** Yes, in certain circumstances.

**Mr HART:** Who would benefit from balancing out the neighbourhood and how would that be recompensed?

**Mr Richards:** That is probably the issue with the way our retailers are set up. They are paid to sell blocks of power at a standard price right across the day, and time-of-use tariffs are another deal which I am not a big fan of because they are a false hope for some homeowners that they will save money, when in fact most homeowners do not. But our retailer system is not set up to reward people for doing the right thing and saving the grid, and that is the issue. So what is in it for the retailer to get involved in anything but simply churning out heaps of power at the wrong time of the day? They do not pay a penalty for what they do; they simply make a clear margin on every unit of power they sell. So the more they sell the more money they make.

**Mr HART:** It would be some sort of penalty that you are talking about to a retailer?

**Mr Richards:** No, it is changing the tariff structure so it stops simply counting how many units go into the house, buying it for 8c and selling it for 25c. If you look at our mobile phone plans today, we are not paying so much per call and that is your bill at the end of the month any more, are we? It is completely different. You buy a capped plan that gives you this volume, and how far are we from—we have seen New South Wales just move to a fully open system where they can actually sell a capped plan so if you do not take your power beyond this point during the month, you will just pay this standard fee. So it does not matter how much power you use during the month, as long as you do not take it over that limit. If you have the technology installed to stop your power going over that limit, you will not hurt the grid.

**CHAIR:** Are consumers at a point where they are willing to monitor that to the degree that they are aware of it? Because if it is anything like internet downloads, I know that my son knows when we have hit the limit when everything slows down, and then we are paying at a much higher rate—and I am always excited by that moment in my life. Are consumers up to that point with regards to electricity, or would there need to be changes for them to really understand how it is playing out in New South Wales?

**Mr Richards:** I think you just articulated the answer in the fact that when the limit is reached, the internet slows down. This is my big concern with time-of-use tariffs. You get extra-cheap power in the middle of the night when you actually do not want to use anything, and at dinnertime when you need to use everything, and cook dinner, and watch TV, and have the air-conditioner on, it costs you twice as much. Without any technology controlling that usage, homeowners are spending more on their power bills with a time-of-use tariff in a normal domestic home than previously with the off-peak tariffs and the normal tariffs. So without the technology to actually control the usage, we could fall foul of trying to take advantage of these systems and it will not advantage anyone.

I think there are a range of controls in place that limit—I am a big fan of the old off-peak tariffs which turned certain appliances off when you do not need them. All you need is your pool pump to run seven or eight hours a day. It does not actually matter what time of the day that pool pump runs, so why run it at dinnertime? That is when you do not want to run it. So the best tariff—and the financial incentive to not use that pump then—is an off-peak tariff, and you set it up. A time-of-use tariff would work if you had timers on all your equipment in the house to stop using them during that time, because the alternative to your internet slowing when it reaches it is that it does not slow—it keeps going, and then a \$200 bill turns into a \$2,000 bill because you hit the excess and you got charged an enormous rate for the excess. So any alternative tariff would have to be on a controlled system where a homeowner had a battery bank and a smart inverter and a technical system set up so that it would load shed during those times, store energy during the day when they were not using it or when the wind is blowing hard through a turbine into the batteries at dinnertime, would use all the power from the batteries and not use the grid, and then start charging it up at night-time and the day when they do not use it again—so technology controls.

If someone invested \$20,000 capital or put that in their house, they should be rewarded with a very small network charge to connect it to the grid and a small fee—but on a much reduced rate—to reward them because they are providing a huge benefit to all their neighbours over and above themselves.

**CHAIR:** We are well outside the scope of the bill, but thank you for that. We really appreciate it.

**CUSSEN, Ms Catherine, Director, Networks and Demand Response**

**GREGOIRE, Ms Cherie, Manager, National Energy Market Reform**

**MILLIS, Mr Alan, General Manager, Energy Supply and Regulation**

**QUIREY, Mr Tim, Director, Renewable & Alternative Energy**

**SCOTT, Mr Richard, Acting Director, Water Reform**

**CHAIR:** If you have an opening statement we are happy to hear that, but we are obviously running on a fairly tight time frame for the consideration of this bill. If you have any verbal comments you would like to make with regard to any of the submissions that the committee has received that have been forwarded to the department, we would be keen to hear those as well.

**Mr Millis:** We were not really planning on making an opening comment. I can make a couple of comments on the evidence that was given today by the representative from APA Group, if I may?

**CHAIR:** Please.

**Mr Millis:** First off, the amount that is to be recovered in relation to gas is \$348,000. That was a bit of a mistranslation.

**CHAIR:** We were looking at the transcripts and the number. Not that it is the end of the world, but it was different. So thank you for that. Has he since been advised of the new figure?

**Mr Millis:** No. He left and I have not spoken to him since he said that, but I will tell him.

**CHAIR:** Thank you.

**Mr Millis:** I do not want to be argumentative, but I suppose the other point that APA made in their discussion was that all pipelines are subject to the National Gas Law. That is actually correct. Our focus has been more on the National Gas Rules, which are the documents which the AEMC actually has carriage of. They make the rules, but he is also correct in that they provide strategic policy advice to the ministerial council. So in a broad sense they cover the gas market, but in a more restricted sense I suppose they cover the rules rather than the law. It is a fine point.

**CHAIR:** It is good that you raise it. Listening to his evidence before the committee, I guess the question that sits in my mind is one of equity in that we have one company that sounds like it is certainly going to be bearing the lion's share of that charge. In considering and formulating the bill, did you consider the equity issue and did you look at other ways that perhaps may be able to share that cost over a greater range of companies rather than predominantly being with one?

**Mr Millis:** As I think I mentioned in the departmental hearing and also as Rod mentioned himself earlier, the rationale was that the essence of the National Gas Rules is the coverage or access arrangements under the National Gas Rules and these as covered pipelines were the ones that are most subject to that aspect of the rules. We have received a copy of their submission and they also wrote directly to our director-general, so I guess we are reviewing the suggestions they have made to see whether there is any alternative.

**CHAIR:** But in the formulation of the bill were other alternatives considered at that time?

**Mr Millis:** Not specifically because it was seen that the actual coverage was the criterion.

**CHAIR:** Looking at it from a different perspective.

**Ms MILLARD:** We were talking earlier with regard to the pipeline levy. Is it a fixed cost?

**Mr Millis:** There was a bit of discussion about levies and charges. All of the pipelines currently pay a licence fee to the Queensland government.

**CHAIR:** Covered and uncovered?

**Mr Millis:** All pipelines, and that is for holding a pipeline licence in Queensland. That is determined on a cents per kilometre basis and that is the way it is levied. In terms of there being costs of paying the levy, there is no real additional cost because it will all be in the one bill essentially. So what this would actually do would be increase the amount per kilometre that would be payable by a pipeline because the levy would be factored into the calculation of the rate per kilometre.

**CHAIR:** But not for all pipelines?

**Mr Millis:** But not for all pipelines on the current draft of the bill; correct. I am not sure if I have fully answered your question.

**CHAIR:** I think where I was coming from before was I was just trying to get my head around how the AEMC do actually charge. If there were more covered pipelines in Queensland, would the charge go up or is the charge a fixed charge and therefore if there were more covered pipelines the cost per company or individual would be shared more?

**Mr Millis:** No, the charge is essentially fixed. It is related to the AEMC's work program. As I have mentioned, I think it is around about \$22 million a year across Australia. Our share is \$4.36 million in the coming year. Of that, about eight per cent is for gas, which is the 348,000 I referred to before, and that would be it. So it will be spread over more kilometres if there were more pipelines.

**Mr HART:** What does the AEMC do as far as regulation? Give us an example of what they do.

**Mr Millis:** The AEMC really has three main functions. I suppose the one that it spends most of its time on is the maintenance of the National Electricity Rules and the National Gas Rules. These are sets of rules which govern the operation of the electricity and gas markets and they are made under national legislation which is the National Gas Law and national electricity law. Any stakeholder other than the AEMC themselves can make a rule change proposal to the AEMC which they are bound under the law to consider, consult on and eventually either make or not make a rule change. That is probably the bulk of their work. They are also tasked with giving strategic advice to the ministerial council, which was formally called the Standing Council on Energy and Resources and has just been renamed the Energy Council, on matters which are referred to them by the council. They also have a broader remit to provide advice on market development, so if there are ways in which the market might be improved.

**Mr HART:** Just narrowing it down to pipelines, what about pipelines?

**Mr Millis:** They are not direct regulators of the pipelines. They look after the rules which cover the regulation of the pipelines, if you like. I think I mentioned last time that there is—

**Mr HART:** Why does this not apply to every other pipeline then? That is what I am getting at.

**Mr Millis:** Okay. The bulk of the rules covers the covered pipelines which is those that are subject to access regimes under the National Gas Rules and that is why we chose to go from the covered pipelines in the setting up of the bill as it is. As Rod said, there are other aspects of the gas market which are becoming of some importance. There is a short-term trading market which is effectively a daily market to help clearing between suppliers and customers. There is a gas trading hub which has just been established at Wallumbilla which again is meant to even out, if you like, supply and demand between the producers up in the Surat and the shippers who bring gas down to either their distributors or to direct industrial customers. There is a gas bulletin board which provides general information on gas flows around the country for any stakeholder who may be interested. So those things are aimed at, if you like, improving the liquidity of the gas market as a whole. So the AEMC does have some oversight.

**Mr HART:** The LNG pipe runs from the Surat over to Gladstone.

**Mr Millis:** Yes.

**Mr HART:** Why is it not a covered pipeline?

**Mr Millis:** That pipeline is, as Rod mentioned, exempted under a provision of the National Gas Law. Because it is a greenfield pipeline, and it is not seen as providing any impact on competition in the gas market because those pipelines are going directly from the gas fields to the LNG plants—that is the one you mean I presume, the new LNG ones—and then for export. So they do not really impact on the market.

**Mr HART:** Is it exempt forever?

**Mr Millis:** It is exempt for 15 years. There is a provision in the law that says you can get a 15-year exemption for a greenfield pipeline.

**CHAIR:** You have outlined for us—and thank you very much for that—some of the functions and the future functions. Whilst it may only be a small percentage of the AEMC's work that is broad and the majority of it plays into the covered pipeline area, was there any consideration given to perhaps a two-tier pricing structure with the levy so that the uncovered pipelines faced a very small levy but reflective of the work that the AEMC does that benefits them and a second tier which is perhaps higher that addressed the covered pipelines?

**Mr Millis:** No, we did not consider that.

**CHAIR:** Are there any wrapping-up remarks that you would like to make or anything in this area?

**Mr Millis:** No; thank you.

**CHAIR:** If not, thank you all very much. We appreciate your time here today. There being no further questions, I close this session of the committee. I thank everyone for their attendance at today's hearings. As always, we have gathered valuable information that will assist us in our inquiry into the Electricity and Other Legislation Amendment Bill 2014. I declare the hearing closed.

**Committee adjourned at 2.53 pm**